

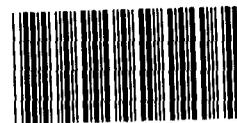
GAO

Fact Sheet for the Chairman,
Subcommittee on Oversight, Committee
on Ways and Means, House of
Representatives

July 1990

TAX
ADMINISTRATION

Trends in the Growth
and Age of IRS'
Accounts Receivable



142046

General Government Division

B-240593

July 30, 1990

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This fact sheet, one of a series of documents responding to your request of March 28, 1990, describes trends in the growth and age of the Internal Revenue Service's (IRS) year-end accounts receivable balances for fiscal years 1986 through 1989. Trends in growth and age are useful indicators for monitoring accounts receivable. Our analyses were limited to accounts receivable in IRS' Individual Master File (IMF) and Business Master File (BMF) because IRS databases on the composition and aging of accounts receivable only include information from these two master files.¹ The IMF and BMF accounts receivable we are reporting on amount to \$56 billion, which is over 85 percent of IRS' total \$65.7 billion assessed accounts receivable at the end of fiscal year 1989.²

IRS has limited management information on its accounts receivable inventory, but in 1988 it began developing a new accounts receivable management information system. As part of this effort, IRS has developed initial databases on accounts receivable that contain detailed information on the collection status and age of receivables. Using these new databases for fiscal years 1988 and 1989, and earlier IRS reports for fiscal years 1986 and 1987, we developed the information in this fact sheet to assist you in monitoring IRS' accounts receivable.

Results in Brief

The dollar value of the combined IMF and BMF accounts receivable has grown by \$13.6 billion, or 32 percent, between the ends of fiscal years 1986 and 1989. Most of this growth occurred in IMF accounts, which accounted for two-thirds of the dollar growth and three-fourths of the

¹Detailed composition and aging information was not available for accounts on the Individual Retirement Account file and nonmaster file, which represent less than 5 percent of the total accounts receivable dollar inventory. During fiscal year 1987, IRS transferred a portion of the nonmaster file accounts—certain penalties—to the IMF. These penalties were about 10 percent of the accounts receivable at the end of fiscal year 1989. For consistency, we have eliminated these accounts from IMF information used in this report unless otherwise stated.

²In addition to the assessed amounts, IRS' accounts receivable at the end of fiscal year 1989 included about \$20.4 billion in accrued interest and penalties. Because IRS does not have accrued interest and penalty information for fiscal years 1986 and 1987 and we want to compare year-end amounts, we do not include interest and penalties in any of the amounts in this report.

growth in the number of accounts. Over 60 percent of the total dollar growth was in accounts where IRS had suspended collection action due to such factors as disputes over the taxpayers' liability, taxpayer bankruptcy, or IRS' inability to locate or obtain payment from the taxpayers.

At the end of fiscal year 1989, \$30.8 billion, or 55 percent, of the total IMF and BMF accounts were over 1 year old, compared with \$19.6 billion, or 46 percent, at the end of fiscal year 1986. The dollar value of accounts over 1 year old grew 56 percent since 1986, which exceeded the 32-percent overall growth in accounts receivable during this period. Most of the growth in the number and dollar value of accounts receivable over 1 year old occurred in IMF accounts. About \$6.3 billion, or over 11 percent, of the 1989 accounts were over 5 years old.

Background

IRS' process for collecting accounts receivable has three stages. In the first stage, a service center attempts to collect unpaid taxes by sending a series of notices, or bills, to the taxpayer. Accounts not collected or resolved as a result of these notices are classified as "Taxpayer Delinquent Accounts" (TDA) and are generally sent to IRS' Automated Collection System (ACS)—the second collection stage. At this stage, IRS employees attempt to contact the delinquent taxpayer by telephone to arrange payment. TDAs not collected or resolved during the ACS stage are sent to revenue officers in IRS district offices for face to face contacts.

During any stage of the collection process, IRS may suspend collection action for a number of reasons, such as the amount is below a predetermined dollar level and, in IRS' opinion, does not warrant extensive collection efforts; the taxpayer is in bankruptcy; or IRS has determined that the taxpayer is currently unable to pay, cannot be located, has died, or, in the case of a corporation, no longer exists. In addition, collection action is suspended while IRS tries to resolve disputed amounts.

For this fact sheet, accounts are categorized as "active"—IRS is trying to collect or establish a payment plan for the amount owed, the taxpayer and IRS have agreed on an installment payment plan, or the taxpayer is paying over the period of time allowed by law³—or "inactive"—collection efforts have been suspended.

³These accounts are primarily for estate and highway use taxes when the taxpayer has elected—as provided in the Internal Revenue Code—to pay in installments. These accounts only appear in the BMF and are considered under 1 year old.

The potential collectibility of the accounts receivable is directly related to the age of the accounts. It is generally accepted in the business community that as accounts become older, they are harder to collect. According to IRS, this also holds true for taxes. Generally, after 6 years these tax debts become uncollectible when the collection statute of limitation expires.

Objective, Scope, and Methodology

The objective of this assignment was to develop trend information on the growth and age of IRS' accounts receivable. To do this, we obtained information from IRS' new accounts receivable databases—which started with the end of fiscal year 1988 data—and other IRS sources on the number and dollar value of accounts receivable in the IMF and BMF by collection status at the end of fiscal years 1986 through 1989. We did not analyze accounts on IRS' Individual Retirement Account file or its' nonmaster file because detailed composition and aging information was not available. We chose 1986 as our base year for analyses because comparable IRS information was not available for prior years. We did not verify the accuracy of IRS' data.

Our trend analyses are based on the dollar value of accounts receivable assessed by IRS at the end of fiscal years 1986 through 1989 and do not include accrued interest and penalties. IRS did not begin reporting accrued interest and penalties until fiscal year 1989 and only has accrued interest and penalty information for accounts receivable balances at the end of fiscal years 1988 and 1989. Therefore, for comparability, we have excluded interest and penalties from all amounts.

A major change in the composition of the IMF accounts receivable occurred during fiscal year 1987 when IRS transferred amounts resulting from the assessment of 100-percent penalties⁴ from the nonmaster file to the IMF. These 100-percent penalty cases accounted for \$5.9 billion, \$6.6 billion, and \$6.8 billion of the combined unadjusted IMF and BMF accounts receivable at the end of fiscal years 1987 through 1989, respectively. In order to be comparable to fiscal year 1986, we have adjusted our data to remove these penalties from subsequent years' IMF amounts unless otherwise stated.

⁴IRS assesses the 100-percent penalty against corporate officers or other responsible officials who were willfully responsible for the business not withholding or not paying over employment taxes that had been withheld from employees. The amount of the penalty is equal to the amount of withheld but unpaid taxes or the amount that should have been withheld. IRS can assess the penalty against one or more of the responsible officials.

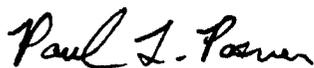
For fiscal years 1988 and 1989, IRS began developing more detailed information on the age of accounts. However, for fiscal years 1986 and 1987, IRS grouped accounts into a number of categories under 1 year old, but grouped all accounts over 1 year old into one category. Therefore, when making comparisons, we have grouped accounts into two age categories—under 1 year and over 1 year. We did not attempt to determine the specific reasons for the trends we identified in the growth and age of the accounts receivable inventory.

We did our work from March 1990 to July 1990 in accordance with generally accepted government auditing standards. We discussed the information in this fact sheet with appropriate IRS officials, who agreed with the facts presented.

As arranged with the Subcommittee, we are sending copies of this fact sheet to the Commissioner of Internal Revenue and other interested parties. We will make copies available to others upon request.

The major contributors to this fact sheet are listed in appendix II. Please contact me on 272-7904 if you or your staff have any questions concerning this fact sheet.

Sincerely yours,



Paul L. Posner
Associate Director, Tax Policy and
Administration Issues

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Abbreviations

ACS	Automated Collection System
BMF	Business Master File
IMF	Individual Master File
IRS	Internal Revenue Service
TDA	Taxpayer Delinquent Account

Growth and Aging of IRS' Accounts Receivable

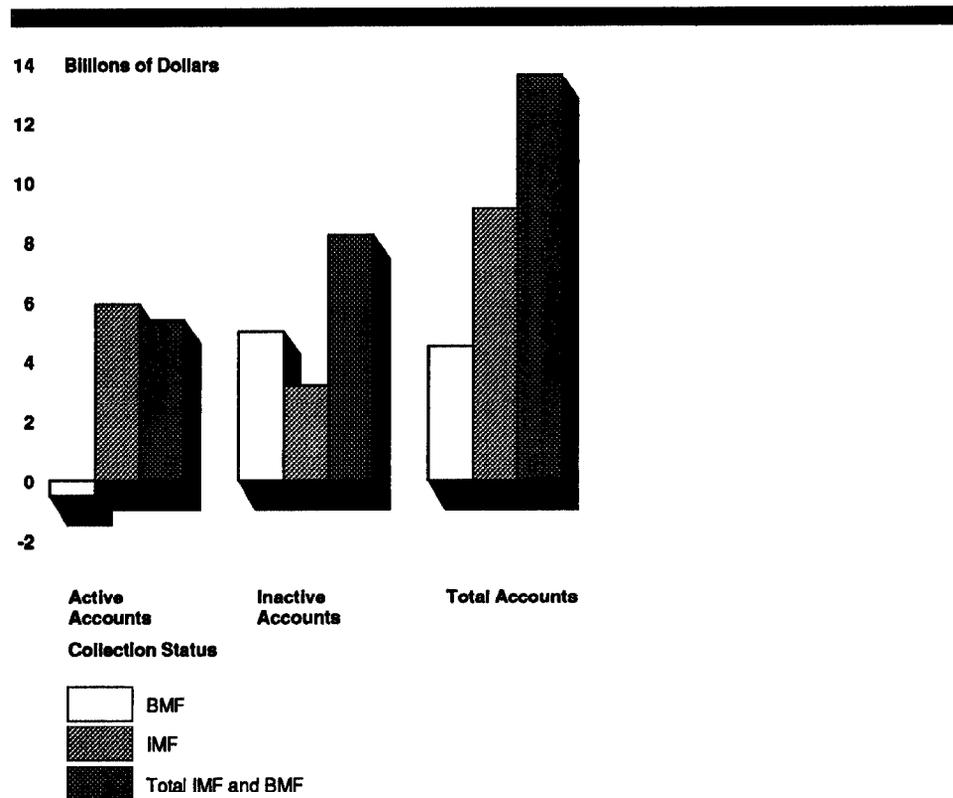
Trends in growth and age are useful indicators for monitoring accounts receivable. Increasing trends in specific categories of accounts can help identify areas that need attention. These indicators, however, do not necessarily point out problems; they only identify issues for which further information is needed to determine the reasons for trends.

Accounts Receivable Growth Trends Have Not Been Equal Among Categories

The dollar value of accounts receivable in the IMF and BMF increased by \$13.6 billion, or almost 32 percent, in the 3 years ending September 30, 1989. The number of accounts increased by 2.7 million, or about 22 percent, during the same period.

As shown in figure I.1 and tables I.1 and I.2, the overall growth has not been equally distributed between the IMF and BMF nor between active and inactive accounts.

Figure I.1: Dollar Value Growth of Active and Inactive IMF and BMF Accounts Receivable Since Fiscal Year 1986



**Appendix I
Growth and Aging of IRS'
Accounts Receivable**

Table I.1: Growth in the Dollar Value of IMF and BMF Accounts Receivable, by Collection Status, From Fiscal Year 1986 to 1989

Dollars in billions

Collection status	IMF			BMF			Total ^a		
	1986	1989	Change ^a	1986	1989	Change ^a	1986	1989	Change ^a
Active	\$9.8	\$15.7	\$5.9	\$16.6	\$16.1	(\$0.5)	\$26.4	\$31.8	\$5.4
Inactive	5.6	8.8	3.2	10.4	15.4	5.0	16.1	24.2	8.2
Total^a	\$15.5	\$24.5	\$9.1	\$27.0	\$31.5	\$4.5	\$42.5	\$56.0	\$13.6

^aNumbers do not add or subtract because of rounding.

Table I.2: Growth in the Number of IMF and BMF Accounts Receivable, by Collection Status, From Fiscal Year 1986 to 1989

Numbers in millions

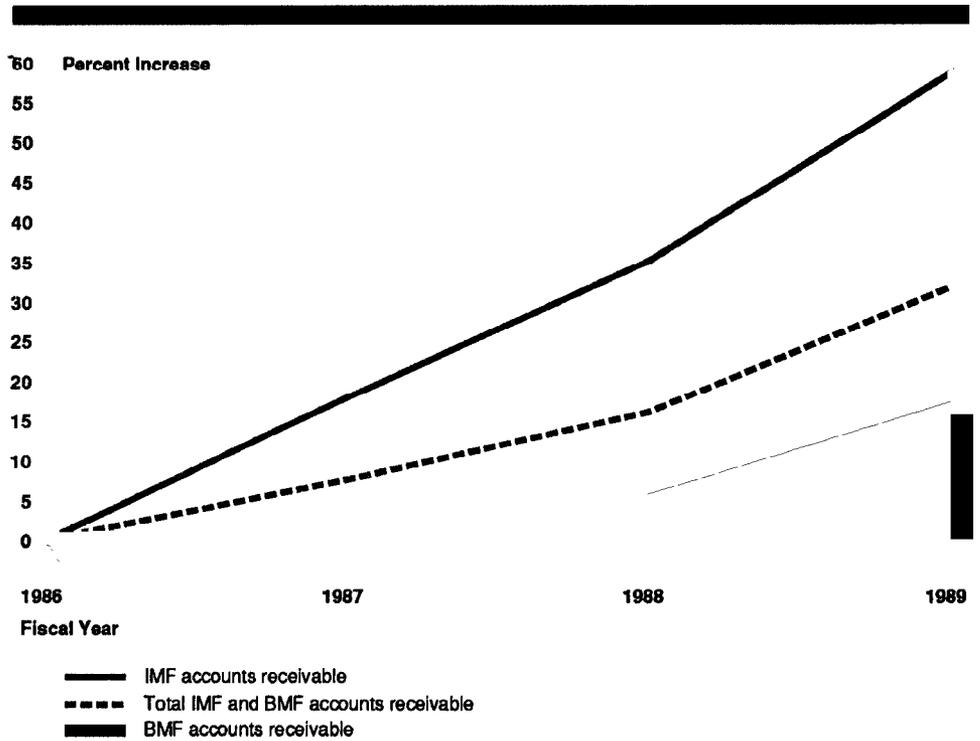
Collection status	IMF			BMF			Total ^a		
	1986	1989	Change ^a	1986	1989	Change ^a	1986	1989	Change ^a
Active	4.1	5.7	1.6	2.6	3.0	0.4	6.7	8.7	2.0
Inactive	2.4	2.9	0.5	3.1	3.3	0.2	5.5	6.2	0.7
Total^a	6.5	8.6	2.1	5.7	6.3	0.6	12.2	14.9	2.7

^aNumbers do not add or subtract because of rounding.

Accounts receivable due from individuals accounted for two-thirds of the dollar growth in IMF and BMF combined, and three-fourths of the growth in the number of accounts. The dollar value of inactive accounts in total increased more than the dollar value of active accounts, while the number of active accounts in total increased more than the number of inactive accounts. However, the dollar value and number of active individual accounts grew more in the 3 years ending September 30, 1989, than the dollar value and number of accounts in any other category.

In addition, the dollar value and number of IMF accounts grew at a faster rate than the dollar value and number of BMF accounts. Figure I.2 shows the dollar growth rate in IMF and BMF accounts.

Figure I.2: Percent of Dollar Growth in IMF, BMF, and Combined IMF and BMF Accounts Receivable Since Fiscal Year 1986



IRS Accounts Receivable Are Getting Older

The number and dollar value of accounts receivable over 1 year old has increased since the end of fiscal year 1986. On a dollar value basis, the fiscal year 1989 accounts over 1 year old were 55 percent of the accounts receivable inventory as compared with 46 percent at the end of fiscal year 1986.

The dollar value of accounts receivable over 1 year old has increased by \$11.2 billion to \$30.8 billion between fiscal years 1986 and 1989—a growth of 57 percent—compared with the 32 percent growth of all accounts receivable. The total number of IMF and BMF accounts over 1 year old has increased by 1.8 million accounts to 8.1 million between fiscal years 1986 and 1989—a growth rate of 29 percent.

Most of the growth in the number and dollar value of accounts receivable over 1 year old occurred in the IMF accounts. However, in terms of categories, the largest portion of the dollar growth is accounted for by increases in inactive business accounts while the largest portion of the growth in number is accounted for by increases in active individual accounts. Tables I.3 and I.4 show the growth in the dollar value and

**Appendix I
Growth and Aging of IRS'
Accounts Receivable**

number of IMF and BMF accounts over 1 year old between fiscal years 1986 and 1989.

Table I.3: Growth in the Dollar Value of IMF and BMF Accounts Receivable Over 1 Year Old, by Collection Status, From Fiscal Year 1986 to 1989

Dollars in billions

Collection status	IMF			BMF			Total ^a		
	1986	1989	Change ^a	1986	1989	Change ^a	1986	1989	Change ^a
Active	\$3.3	\$6.5	\$3.2	\$3.6	\$3.7	\$0.1	\$6.9	\$10.2	\$3.1
Inactive	4.8	7.6	2.8	8.0	13.0	5.0	12.7	20.6	7.8
Total^a	\$8.0	\$14.1	\$6.1	\$11.6	\$16.7	\$5.1	\$19.6	\$30.8	\$11.2

^aNumbers do not add or subtract because of rounding.

Table I.4: Growth in the Number of IMF and BMF Accounts Receivable Over 1 Year Old, by Collection Status, From Fiscal Year 1986 to 1989

Numbers in millions

Collection status	IMF			BMF			Total ^a		
	1986	1989	Change ^a	1986	1989	Change ^a	1986	1989	Change ^a
Active	0.9	1.7	0.8	0.6	0.9	0.3	1.5	2.6	1.1
Inactive	2.0	2.4	0.5	2.7	3.0	0.2	4.7	5.4	0.7
Total^a	2.9	4.2	1.3	3.3	3.9	0.5	6.2	8.1	1.8

^aNumbers do not add or subtract because of rounding.

As table I.5 shows, at the end of fiscal year 1989, 55 percent of the total IMF and BMF accounts were over 1 year old and 11 percent were over 5 years old.

Table I.5: Age of the Fiscal Year 1989 IMF and BMF Accounts Receivable Ending Inventory in Dollars and as Percent of Total IMF and BMF

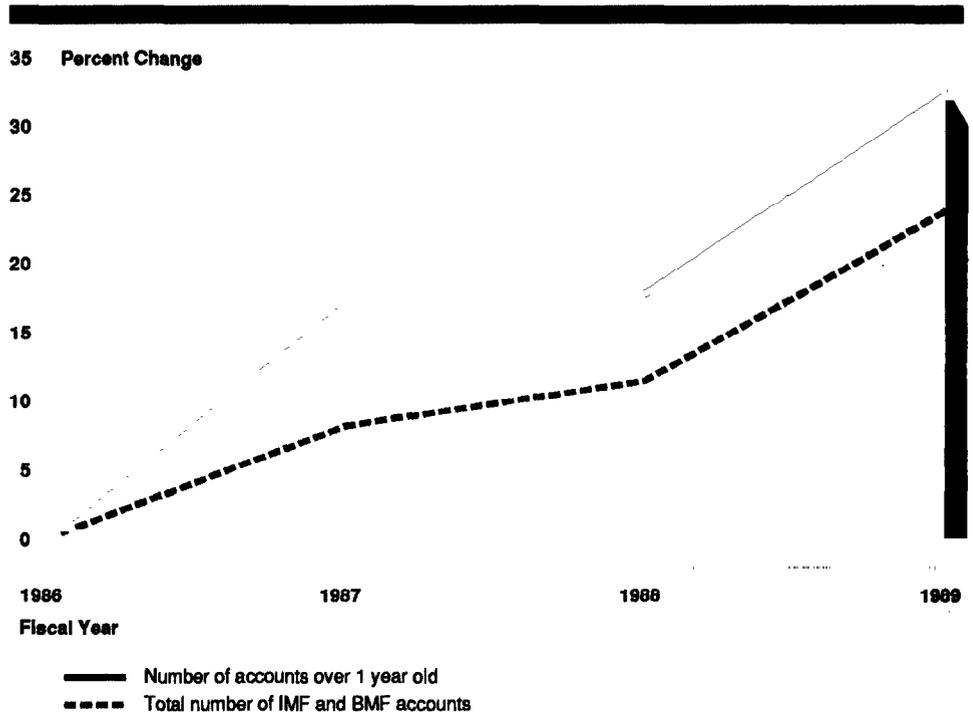
Dollars in billions

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	> 5 years	Total ^a
IMF dollar amount	\$10.4	\$4.5	\$3.1	\$2.4	\$1.6	\$2.5	\$24.5
IMF percentage	42	18	13	10	7	10	100
BMF dollar amount	\$14.8	\$4.4	\$3.5	\$2.6	\$2.3	\$3.8	\$31.5
BMF percentage	47	14	11	8	7	12	99
Total dollar amount ^a	\$25.3	\$8.9	\$6.6	\$5.0	\$4.0	\$6.3	\$56.0
Total percentage	45	16	12	9	7	11	100

^aNumbers do not add or subtract because of rounding.

As shown in figures I.3 and I.4, the growth rate for accounts receivable over 1 year old has been greater than the growth rate for the combined IMF (including 100-percent penalties) and BMF accounts receivable since fiscal year 1986—both in terms of the number of accounts and their dollar value.

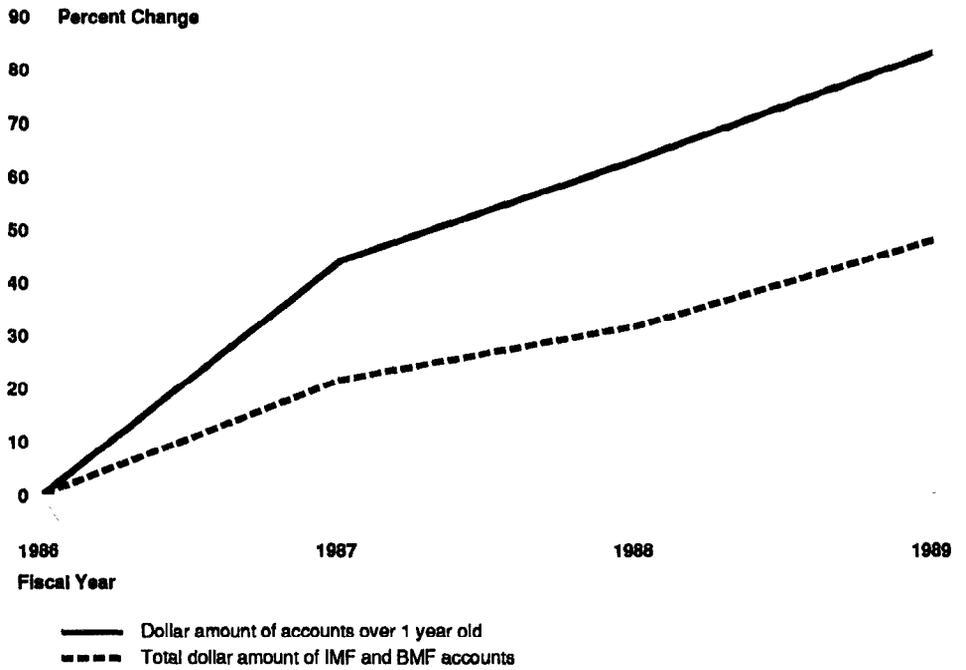
Figure I.3: Percent Growth in Total Number of IMF and BMF Accounts Receivable and Number of Accounts Over 1 Year Old Since Fiscal Year 1986



Note: The information on this figure includes 100-percent penalties. Although the percentages would be lower without the 100-percent penalties, the relationship and slant of the lines would remain the same.

Appendix I
Growth and Aging of IRS'
Accounts Receivable

Figure I.4: Percent Growth in Total Dollar Value of IMF and BMF Accounts Receivable and Dollar Value of Accounts Over 1 Year Old Since Fiscal Year 1986



Note: The information on this figure includes 100-percent penalties. Although the percentages would be lower without the 100-percent penalties, the relationship and slant of the lines would remain the same.

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